

## Message Text

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12

ACTION EA-09

INFO OCT-01 ISO-00 XMB-02 EB-07 COME-00 TRSE-00 CIAE-00

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R 240807Z DEC 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 0678

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E. O. 11654: NA

TAGS: EFIN, RP

SUBJECT: FINANCING OF NUCLEAR POWER PROJECT

PASS EXIMBANK

REF: A) STATE 299760, B) MANILA 17822

1. EMBASSY HAS HEARD FROM SEVERAL RELIABLE SOURCES THAT SYNDICATION OF NON-GUARANTEED COMMERCIAL PORTION OF PROJECT FINANCING WAS STOPPED BY PHILIPPINE CENTRAL BANK GOVERNOR LICAROS AND SECRETARY OF FINANCE VIRATA AFTER CITICORP REPRESENTATIVE IN LONDON INFORMED GOP THAT TERMS OFFERED ON NUCLEAR POWER PROJECT WERE NOT COMPETITIVE WITH OTHER PHILIPPINE PAPER BEING OFFERED TO THE MARKET AT THE SAME TIME. COMPETITIVE ISSUES BEING MENTIONED INCLUDE SAN MIGUEL CORPORATION'S 100 MILLION DOLLAR AND NATIONAL INDUSTRIAL DEVELOPMENT CORPORATION'S 20 MILLION DOLLAR SYNDICATIONS. WE UNDERSTAND THAT APPROXIMATELY 150 MILLION OF THE 250 MILLION DOLLARS NEEDED FOR THE NUCLEAR POWER PROJECT HAD ALREADY BEEN SUCCESSFULLY SYNDICATED. LICAROS SUPPOSEDLY DISCUSSED PROBLEMS DIRECTLY WITH FNCB OFFICIALS, INCLUDING LONDON REPRESENTATIVE, WHILE IN NEW YORK RECENTLY. WE DO NOT KNOW THE RESULTS OF THOSE TALKS YET.

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2. ANOTHER ATTEMPT TO ARRANGE FINANCING IS EXPECTED AFTER THE HOLIDAYS. LEAD BANK REPS WILL MEET WITH GOP IN EARLY JANUARY. IF SATISFACTORY TERMS CANNOT BE AGREED TO WITH FINANCING CONSORTIUM, WE UNDERSTAND GOP PREPARED TO CLOSE BOOK NOW AND GO TO MARKET WITH THE AS YET UNSYNDICATED 100 MILLION AGAIN IN THIRD OR FOURTH YEAR AFTER COMMENCEMENT OF PROJECT WHEN FUNDS ARE ACTUALLY REQUIRED. THE GOP WOULD ASSUME THE UNDERWRITING RISK ON THE 100 MILLION DOLLAR BALANCE AND FREE THE MARKET FOR OTHER PHILIPPINE PAPER AT THIS TIME. FINANCING FOR LARGE INDUSTRIAL PROJECTS LIKE COPPER SMELTERS, FERTILIZER AND STEEL PLANTS, ALONG WITH OTHER SMALLER ISSUES, BEING ORGANIZED AND CERTAIN CIRCLES ARE RECOMMENDING THAT THE MARKET BE LEFT OPEN.

3. SECRETARY OF INDUSTRY PATERNO HAS USED INTERNATIONAL CREDIT CRUNCH AS OPPORTUNITY TO PUSH FOR REVIEW OF ECONOMIC RATIONALE FOR NUCLEAR POWER IN THE PHILIPPINES IN LIGHT OF INCREASED CAPITAL COSTS. A CASE WAS MADE AGAIN FOR THE FOSSIL FUEL ALTERNATIVE IN COMBINATION WITH DEVELOPMENT OF GEOTHERMAL RESOURCES. AN NPC REBUTTAL, PREPARED WITH THE ASSISTANCE OF THE CENTRAL BANK, STRONGLY REFUTED PATERNO'S ARGUMENTS. SAVINGS IN NUCLEAR VERSUS FOSSIL FUEL GENERATED POWER, IN SPITE OF INCREASED CAPITAL AND URANIUM FUEL COSTS, WERE CITED AS WELL AS FACT THAT GEOTHERMAL SUBSTITUTE CANNOT POSSIBLY BE DEVELOPED TO MEET POWER NEEDS PROJECTED TO 1990. DEBT REPAYMENTS WILL BE MET FROM FUEL OIL SAVINGS WHICH AT CURRENT PRICES ARE ESTIMATED AT \$150 MILLION PER YEAR, AND THUS SHOULD NOT IMPAIR THE FUTURE DEBT CAPACITY OF THE COUNTRY ACCORDING TO THE REBUTTAL. STRONGEST CONCLUSION WAS THAT ECONOMY MUST HAVE NUCLEAR POWER OR THE ECONOMY DOES NOT GROW.

4. COMMENT: IT APPEARS AT THE MOMENT THAT NUCLEAR POWER ADVOCATES HAVE WON THE DAY IN THIS ELEVENTH HOUR INVESTMENT PRIORITY REVIEW. THOSE MOST IMMEDIATELY CONCERNED (NPC OFFICIALS AND WESTINGHOUSE REPRESENTATIVES) EXPECT FINAL DECISION TO GO AHEAD WITH THE PROJECT  
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-- THAT IS TO SIGN THE CONTRACT -- TO  
BE MADE SOON AFTER THE HOLIDAYS.  
SULLIVAN

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## Message Attributes

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